Technical Conference Discussion Materials

Federal Energy Regulatory Commission

Observations on Power Infrastructure Capital Investment

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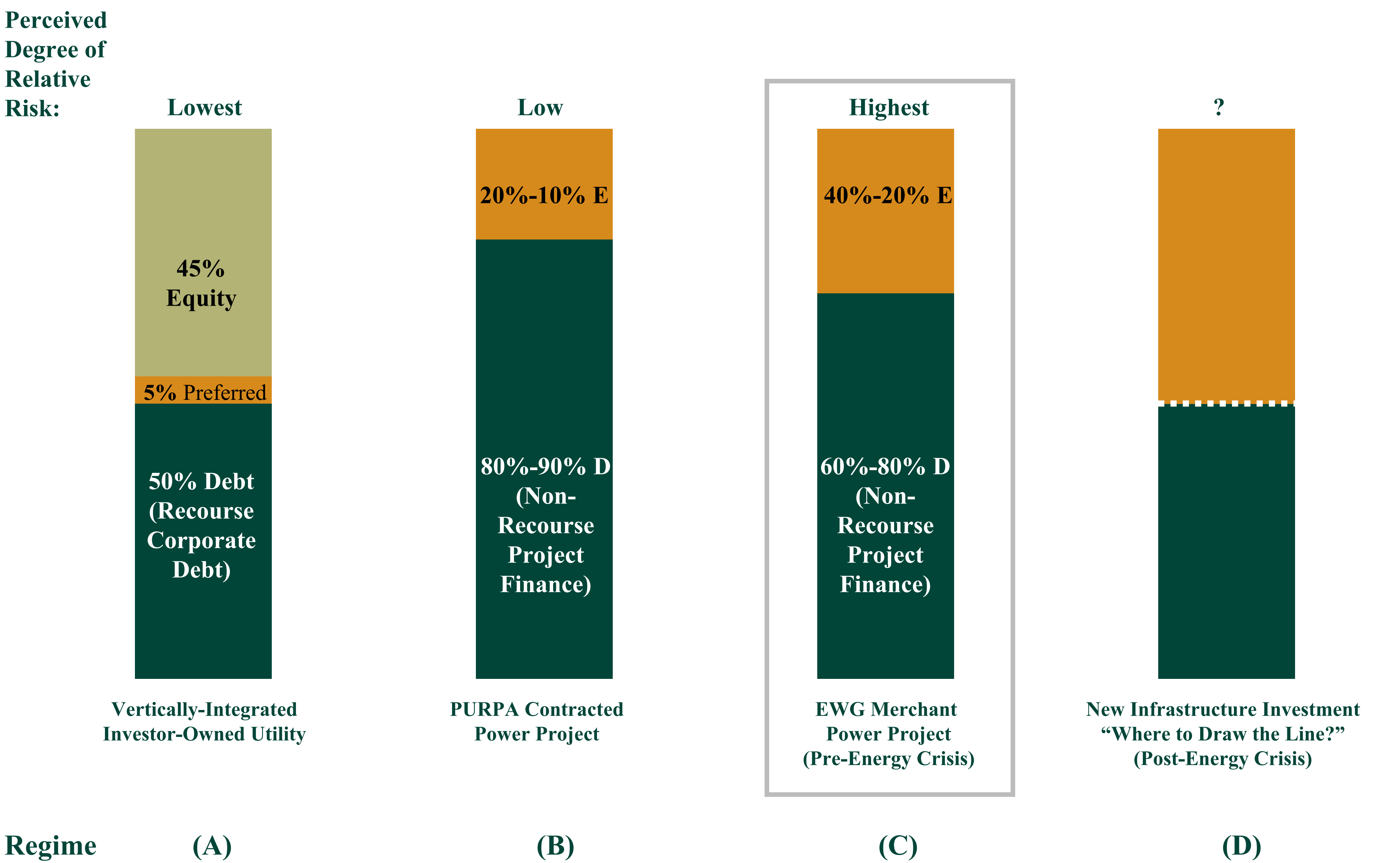
Typical Power Asset Capital Structure Mix



Assorted Financing "Lessons Learned" (Regime C)

Assumptions/Parameters Tested Under Duress

- Disclosure
- Consulting reports on commodity price dynamics (scope)
- Market development risk
- Debt previously assumed an equity level of business risk
- Availability/scarcity of risk - capital will not necessarily self-regulate overcapacity tendencies
- Bankruptcy is possible in the "safe" utility sector
- Non-recourse really means that debt can convert to equity
- No good substitutes for traditional liquidity facilities

Implications for Future Investment (Regime D)

- The pain is still fresh amidst the same financing players (i.e. historical institutional utility investors)
- The newer, opportunistic players (e.g. private capital) have the advantage of this hindsight as they make brand new investment decisions
- The market is probing for the workable models of the past ("back to basics – a multi-dimensional concept")
- "Smart money" is willing to evaluate and price investment optionality, but feels most comfortable with the prospects of an asset which displays the characteristics of a deep-in-the-money intrinsic option (e.g. low cost coal in a gas marginal region; cost-of-service rate base with performance-based upside; jurisdictionally-undisputed bilateral contracts)

This requires a near-term balance favoring transparency/certainty

Representative Types of Physical "Wholesale" Assets Located Within Load Pockets

- Generation (Existing (M&A); New Build (Construction))
  - Base
  - Intermediate
  - Peaking
  - Distributed Generation; Combined Heat and Power
  - Renewables
- Transmission
  (Existing (M&A; Contribution to GridCo); New Build (Construction))
  - Intra-Grid
  - Inter-Grid

- Complexity of the wide range of assets (physical; jurisdictional) compounded by a wide range of owners (IOU's; Power Authorities/Coops/ Munis; IPP's; Entrepreneurs) leads to a stratified, segmented capital base with conflicting interests

It is difficult for new capital to chart a reasonable path through this uncertainty

Time-Proven Financing Appetite (Regime B)

- Bilateral PURPA contracts generally separated fixed (installed capital) and variable (usage) project parameters to allow for appropriately transparent recovery of and on capital investment
  - Somewhat similar to pipeline Straight-Fixed-Variable (SFV) rate structure
- The quasi-rate base nature and long term of these contracts, in turn, provided comfort to the investment community…and so capital flowed as the means to facilitate the intent of the program
- The employment of a similar financial mechanism at this sensitive point in time could be very well received by infrastructure investors
  - It will reduce perceived risk of new investment, and thus also serve to balance the commensurate required reward

An increased measure of certainty will again point new capital to flow to meet today’s physical market challenges

The objective clearing “originator” of this suggested certainty could very well be the entity responsible for market-governing reliability